

Embargoed until: 09:45 (BEIJING), 5 November 2012

HSBC China Services PMI™

Business activity expands at solid, albeit weaker, pace in October

Key findings:

- Growth of business activity slows from September
- Input costs rise, while output charges fall
- Backlogs of work reduced at quickest pace in two years

October data signalled an increase in business activity in the Chinese service sector, although the rate of growth was down on September. Similarly, new orders increased at a solid, albeit reduced rate in the latest survey period. Outstanding business meanwhile fell at the quickest pace in two years, and employment levels increased only marginally.

On the price front, input price inflation continued at a solid rate, whereas output charges fell at the fastest pace for four months.

After adjusting for seasonal factors, the Business Activity Index posted 53.5 in October, down from 54.3 in September, signalling a solid, albeit slower rate of expansion in service sector activity. Some survey respondents attributed growth to an increased number of clients and higher order volumes.

New business increased during October at a moderate pace. Nearly 14% of survey respondents reported a higher volume of new orders, with a number of panellists suggesting that this was due to new client wins. However, growth of new business was slower than in September and weaker than the long-run series average.

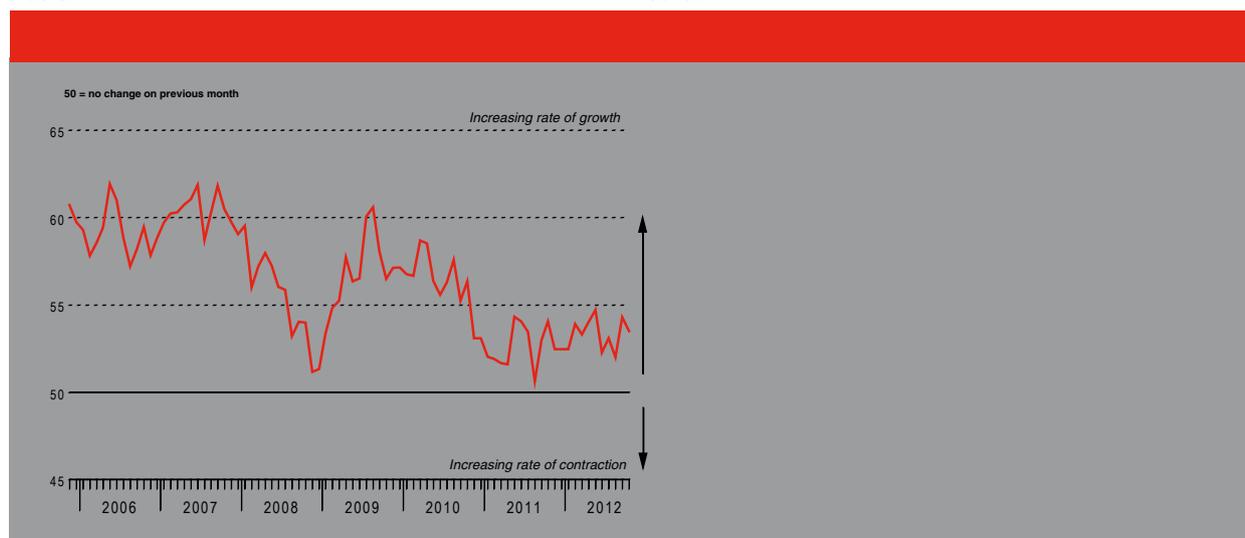
Backlogs of work decreased at a moderate rate in October. However, it was the quickest rate of backlog depletion recorded for two years. Respondents attributed the decline in work-in-hand to larger workforce numbers and a less-than-expected number of orders.

Employment levels in the service sector increased during October, albeit only marginally. The majority of survey respondents (over 88%) reported no change to employee numbers since September.

Average tariffs charged by service sector firms decreased during October. The modest reduction in selling prices followed a marginal increase in September. Over 6% of survey respondents reported lower output charges, with a number of firms linking this to increased competitive pressures.

Input prices meanwhile increased during October. The rate of input price inflation was slower than in September, but remained solid overall. Approximately 8% of panellists recorded higher input costs over the month, as opposed to less than 3% that reported a decline. Anecdotal evidence suggested increased input prices were mainly due to higher raw material costs.

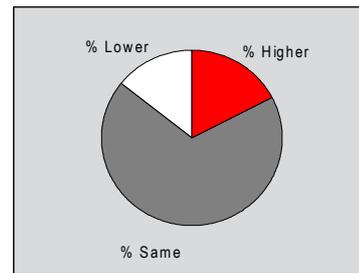
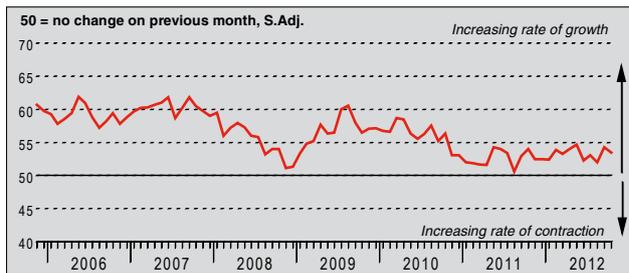
Chinese service sector firms were optimistic regarding the one-year business outlook in October. Nearly 31% of survey respondents expect business activity to increase in a year's time, compared to just over 7% that anticipated a decrease. A number of firms attributed their optimistic outlook to expansionary policies. Overall, the level of positive sentiment towards future business activity growth was strong but, having fallen from September, was one of the weakest recorded in the seven-year series history so far.



The survey uses a methodology identical to the HSBC China Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Chinese services economy. Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Business Activity Index

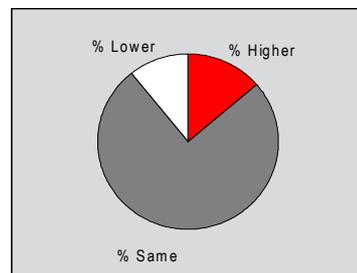
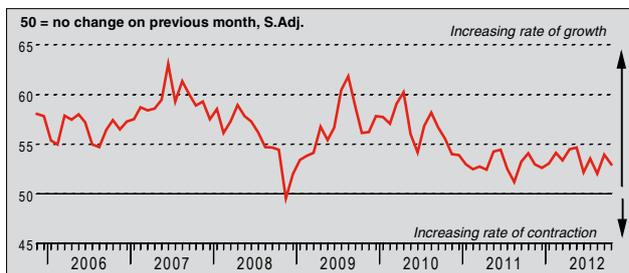
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index signalled an expansion of activity in the Chinese service sector during October. The rate of increase was slower than in September, but remained solid, with over 17% of survey respondents reporting a higher level of business activity over the month. Anecdotal evidence attributed growth of business activity to an increased amount of new orders.

New Business Index

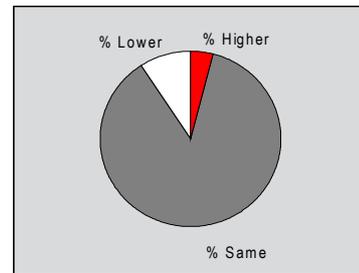
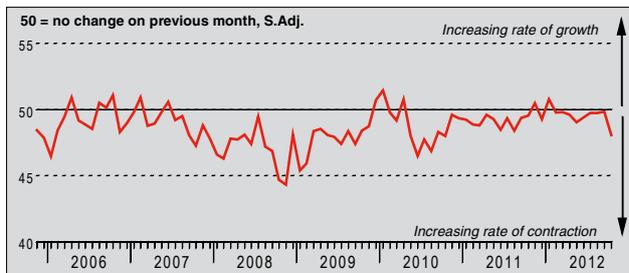
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new orders in the Chinese service sector increased during October. The seasonally adjusted index indicated that growth of new business, although moderate, was nonetheless slower than in September. Nearly 14% of panellists recorded growth in new orders, compared to just under 11% of respondents that noted a fall. A number of firms suggested that the increased amount of new business reflected a rising number of new clients.

Outstanding Business Index

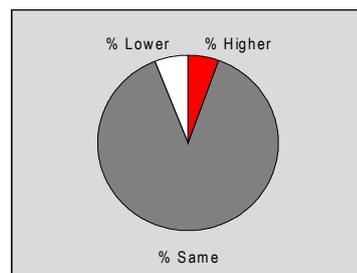
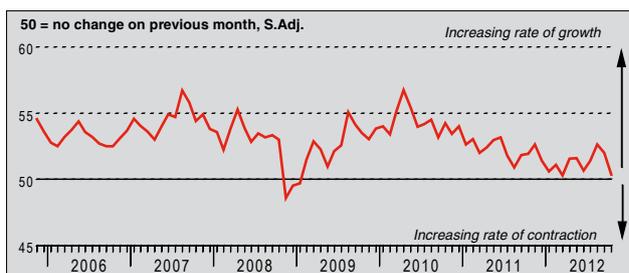
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of outstanding business fell for the ninth successive month in October. The seasonally adjusted rate of backlog depletion was modest and quickened sharply to its fastest pace in two years. Over 9% of respondents indicated a lower level of backlogged work, compared with 4% that reported an increase. Panellists that recorded a lower level of outstanding business attributed this to a combination of increased workforce numbers and slower growth of new business.

Employment Index

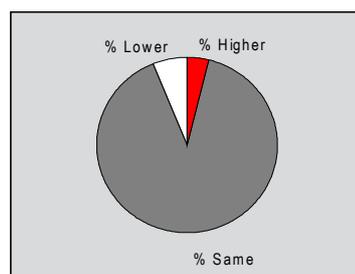
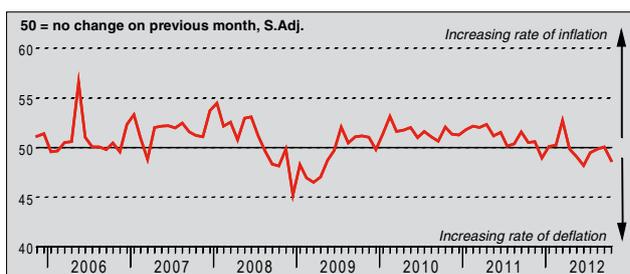
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment levels in the Chinese service sector increased during October, albeit only marginally. The seasonally adjusted Employment Index fell for the second month running, and signalled the slowest rate of job creation for seven months. Over 5% of service providers reported increased staff numbers in October, but a majority (over 88%) recorded no change from September. A number of respondents suggested that rising workforce numbers reflected a growing amount of new orders.

Prices Charged Index

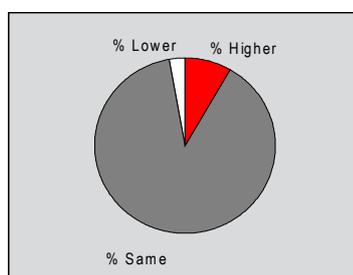
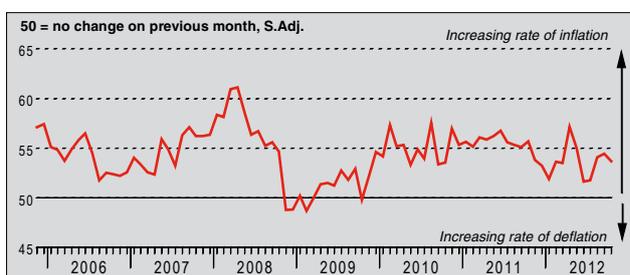
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average tariffs charged by service providers decreased during October, following on from a marginal increase in September. The seasonally adjusted index indicated that the rate of decline was modest, and the quickest since June. Over 6% of panellists reported lower output charges over the month, compared to less than 4% that signalled an increase. Anecdotal evidence suggested that reduced output charges were linked to competitive pressures in the market.

Input Prices Index

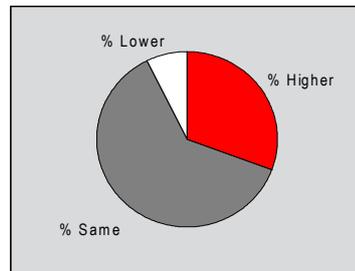
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices faced by Chinese service providers continued to increase during October. The rate of inflation was slower than in September, but remained solid overall. Over 8% of respondents noted an increase in input prices in the latest survey, while less than 3% recorded a reduction. A number of firms that reported input price inflation in October largely linked this to rising raw material costs.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



Service sector firms remained optimistic about the prospect of business activity growth in one year's time during October. The degree of optimism was high, but had eased since September and was one of the weakest levels in the seven-year series history. Nearly 31% of firms expected business activity to be higher in 12 months' time, while approximately 7% of panellists predict it would decrease. A number of companies that expressed positive sentiment towards future business growth attributed this to stabilising market conditions and planned company expansions.

Notes on the Data and Method of Presentation

The China Services PMI™ covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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